

# Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended.

Unit Name	CHIKAMING TOWNSHIP	County	BERRIEN	Type	TOWNSHIP	MuniCode	
Opinion Date-Use Calendar	Jul 9, 2008	Audit Submitted-Use Calendar	Aug 14, 2008	Fiscal Year-Use Drop List	3/31/2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies? 19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 1,422,098.00
General Fund Expenditure:	\$ 1,305,124.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 1,191,880.00
Governmental Activities Long-Term Debt (see instructions):	\$ 131,672.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	JAMES	Last Name	HUTTER	Ten Digit License Number	1101008940		
CPA Street Address	330 COMMERCE SQUARE	City	MICHIGAN CITY	State	IN	Zip Code	46360
CPA Firm Name	HUTTER & ASSOCIATES, P.C.	Unit's Street Address	P.O. BOX 40	City	HARBERT	LU Zip	49115

**CHIKAMING TOWNSHIP**  
**Berrien County, Michigan**

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**FINANCIAL STATEMENTS**  
**With Supplementary Information**  
**for the year ended March 31, 2008**

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**HUTTER & ASSOCIATES, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

CHIKAMING TOWNSHIP  
Berrien County, Michigan

March 31, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# CHIKAMING TOWNSHIP



13535 Red Arrow Hwy., P.O. Box 40, Harbert, MI 49115  
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Chikaming Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of Chikaming Township for the fiscal year ended March 31, 2008. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

### FINANCIAL HIGHLIGHTS:

- The assets of the Township exceeded its liabilities at March 31, 2008 by \$15,857,122 (net assets), an increase of \$313,331 over the prior fiscal year. Of this amount, \$6,287,931 (unrestricted net assets) may be used to meet the Township's ongoing obligations to citizens and creditors.
- As of March 31, 2008, the Township's Governmental Funds reported combined ending fund balances of \$1,232,744, an increase of \$93,249 over the prior fiscal year. The unreserved fund balance of \$1,213,369 (98% of total) is available for spending at the Township's discretion.
- As of March 31, 2008, the Township's Proprietary Funds reported combined total net assets of \$10,356,276, an increase of \$298,692. The unrestricted net assets total was \$5,206,234.

### OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. Chikaming Township's basic financial statements are comprised of three components: (1) Government-wide financial statements, (2) Fund financial statements, and (3) Notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

The Government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The statement of net assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes).

Both of the Government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Chikaming Township include general government, public safety, public works and the Park Commission. The business-type activities are the water and sewer systems.

The Government-wide financial statements can be found on pages 3 to 5 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Chikaming Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories:

#### **Governmental Funds:**

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-wide financial statements. However, unlike the Government-wide financial statements, Governmental Fund financial statements focus on current resources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the Government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the Governmental Funds and governmental activities.

Chikaming Township maintains two individual Governmental Funds. Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures and changes in fund balances for the General Fund and the Building Inspection Fund (Special Revenue Fund), which are considered major funds.

Chikaming Township adopts an annual appropriated budget for the major funds. A budgetary comparison statement has been provided for the General Fund and the Building Inspection Fund to demonstrate compliance with the budget.

The basic Governmental Funds can be found on pages 6 to 9 of this report.

#### **Proprietary Funds:**

The Township maintains two Proprietary Type Funds; the Water Fund and the Sewer Fund. These Enterprise Funds are used to report the same functions presented as business-type activities in the Government-wide financial statements.

The Proprietary Funds provide the same type of information as the Government-wide financial statements, only in more detail. The Proprietary Funds financial statements provide separate information for the Water and Sewer Funds, which are considered to be major funds of Chikaming Township.

The basic Proprietary Funds can be found on pages 10 to 14 of this report.

**Fiduciary Fund:**

The Fiduciary Fund is used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the Government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for the Fiduciary Fund is much like that used for the Proprietary Funds.

The basic Fiduciary Fund can be found on page 15 of this report.

**Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

The Notes to Financial Statements can be found on pages 16 to 35 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS:**

The first table presented below is a summary of the Government-wide statement of net assets for Chikaming Township. As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. As of March 31, 2008, the Township's net assets exceeded liabilities by \$15,857,122.

A large portion of Chikaming Township's net assets (54%) reflects its investment in capital assets (e.g., land, buildings, equipment and utility systems), less any related debt used to acquire those assets that is still outstanding. Chikaming Township uses those capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



CHIKAMING TOWNSHIP  
SUMMARY OF STATEMENT OF NET ASSETS  
as of March 31, 2008

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and other assets	\$1,249,140	\$ 6,641,304	\$ 7,890,444
Capital assets, net	<u>4,399,774</u>	<u>6,121,569</u>	<u>10,521,343</u>
Total assets	<u>5,648,914</u>	<u>12,762,873</u>	<u>18,411,787</u>
Long-term liabilities outstanding	131,672	1,977,354	2,109,026
Other liabilities	<u>16,396</u>	<u>429,243</u>	<u>445,639</u>
Total liabilities	<u>148,068</u>	<u>2,406,597</u>	<u>2,554,665</u>
Net assets:			
Invested in capital assets, net of related debt	4,399,774	4,144,215	8,543,989
Restricted	19,375	1,005,827	1,025,202
Unrestricted	<u>1,081,697</u>	<u>5,206,234</u>	<u>6,287,931</u>
Total net assets	<u>\$5,500,846</u>	<u>\$10,356,276</u>	<u>\$15,857,122</u>

A portion of Chikaming Township's net assets (13.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted assets (\$6,287,931) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year ended March 31, 2007.

CHIKAMING TOWNSHIP

SUMMARY OF CHANGES IN NET ASSETS

for the year ended March 31, 2008

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 449,380	\$ 1,644,723	\$ 2,094,103
General revenues:			
Property taxes	771,304	-	771,304
State-shared revenues	256,614	-	256,614
Interest and rentals	61,147	132,869	194,016
Gain from Joint Venture	-	535,785	535,785
Loss on disposal of capital assets	(39,157)	-	(39,157)
Grant income	53,081	-	53,081
Other	<u>1,056</u>	<u>-</u>	<u>1,056</u>
Total revenues	<u>1,553,425</u>	<u>2,313,377</u>	<u>3,866,802</u>
Expenses:			
General government	383,948	-	383,948
Public safety	1,030,780	-	1,030,780
Public works	60,107	-	60,107
Park Commission	63,951	-	63,951
Public utility funds	<u>-</u>	<u>2,014,685</u>	<u>2,014,685</u>
Total expenses	<u>1,538,786</u>	<u>2,014,685</u>	<u>3,553,471</u>
Changes in net assets	14,639	298,692	313,331
Net assets, beginning of year	<u>5,486,207</u>	<u>10,057,584</u>	<u>15,543,791</u>
Net assets, end of year	<u>\$5,500,846</u>	<u>\$10,356,276</u>	<u>\$15,857,122</u>

## **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS:**

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds:**

The focus of Chikaming Township's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of this fiscal year.

The General Fund is the chief operating fund of the Township. At the end of the current fiscal year, the unrestricted fund balance of the General Fund was \$1,172,505.

The General Fund increased by \$116,974 (10.9%) for the fiscal year. Key factors in this increase were revenues in excess of projected amounts by \$168,988, and a decrease in projected budgeted expenditures of \$42,078.

Business-type activities increased Chikaming Township's net assets by \$298,692 in these Proprietary Funds. Included in this increase was net income of \$535,785 from the Joint Venture, GRSD Sewer Authority, of which \$506,008 consisted of capital contribution income to the Authority. Without this extraordinary income from the GRSD Sewer Authority, business-type activities would have decreased for the current fiscal year by \$245,093.

### **GENERAL FUND BUDGETARY HIGHLIGHTS:**

There were no differences between the original and final amended budgets for expenditures. Actual expenditures were generally comparable (within 3%) to budgeted amounts in the aggregate, with actual expenditures below budget amounts by \$42,078.

Actual revenues compared favorably to budget, providing \$168,988 more than anticipated in a variety of revenue categories.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION:**

### **Capital Assets:**

Chikaming Township's investment in capital assets for its governmental and business-type activities as of March 31, 2008 amounted to \$10,521,344 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and utility systems.

### **Long-Term Debt:**

At the end of the current fiscal year, Chikaming Township had total bonded debt outstanding of \$2,020,000. The debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds) from the Water Fund.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES:**

When determining the budget for the next fiscal year 2008-2009, the following factors were considered:

1. The State of Michigan is estimating that revenue-sharing will decrease compared to the previous year.
2. Property tax revenue is estimated to increase 5% over last year.
3. All other estimates will be based on prior year actual activity.

## **REQUESTS FOR INFORMATION:**

This financial report is designed to provide a general overview of Chikaming Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or additional financial information should be addressed to:

Chikaming Township Center  
13535 Red Arrow Highway  
P.O. Box 40  
Harbert, Michigan 49115  
(269) 469-1676.

# HUTTER & ASSOCIATES, P.C.

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## INDEPENDENT AUDITORS' REPORT

Honorable Members of the  
Township Board  
Chikaming Township  
Berrien County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Chikaming Township (the "Township") as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Chikaming Township as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (pages i through viii) and the supplementary information (pages 36 through 38) are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township's basic financial statements. The accompanying supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stetter & Associates, P.C.*

July 9, 2008

# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

CHIKAMING TOWNSHIP  
GOVERNMENT-WIDE  
STATEMENT OF NET ASSETS

as of March 31, 2008

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$1,155,580	\$ 2,596,403	\$ 3,751,983
Investments	-	212,986	212,986
Inventory, at cost	-	102,573	102,573
Receivables, net	44,773	314,662	359,435
Internal balances	34,450	159,877	194,327
Due from other governments	1,234	-	1,234
Prepaid expenses	13,103	5,433	18,536
Equity investment	-	3,221,601	3,221,601
Capital assets, net	4,399,774	6,121,569	10,521,343
Other assets	<u>-</u>	<u>27,769</u>	<u>27,769</u>
Total assets	<u>5,648,914</u>	<u>12,762,873</u>	<u>18,411,787</u>
Liabilities:			
Accounts payable	16,396	77,275	93,671
Internal balances	-	190,506	190,506
Other payables	-	161,462	161,462
Long-term debt:			
Due within one year	14,141	195,000	209,141
Due in more than one year	<u>117,531</u>	<u>1,782,354</u>	<u>1,899,885</u>
Total liabilities	<u>148,068</u>	<u>2,406,597</u>	<u>2,554,665</u>
Net assets:			
Invested in capital assets, net of related debt	4,399,774	4,144,215	8,543,989
Restricted for:			
Debt service	-	1,005,827	1,005,827
Capital expenditures	6,272	-	6,272
Other items	13,103	-	13,103
Unrestricted	<u>1,081,697</u>	<u>5,206,234</u>	<u>6,287,931</u>
Total net assets	<u>\$5,500,846</u>	<u>\$10,356,276</u>	<u>\$15,857,122</u>

The accompanying notes are an integral part of these financial statements.



CHIKAMING TOWNSHIP

GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES

for the year ended March 31, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for</u>	<u>Operational</u>	<u>Capital</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
Governmental activities:				
General government	\$ 377,918	\$ 278,896	\$1,056	\$ -
Public safety	1,030,780	170,484	-	53,081
Public works	60,107	-	-	-
Park Commission	63,951	-	-	-
Interest on long-term debt	6,030	-	-	-
Total governmental activities	<u>1,538,786</u>	<u>449,380</u>	<u>1,056</u>	<u>53,081</u>
Business-type activities:				
Water	1,162,317	1,137,511	-	-
Sewer	<u>852,368</u>	<u>507,212</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>2,014,685</u>	<u>1,644,723</u>	<u>-</u>	<u>-</u>
Total activities	<u>\$3,553,471</u>	<u>\$2,094,103</u>	<u>\$1,056</u>	<u>\$53,081</u>

The accompanying notes are an integral part of these financial statements.

Net  
(Expenses)  
Revenues

\$ (97,966)  
(807,215)  
(60,107)  
(63,951)

(6,030)

(1,035,269)

(24,806)  
(345,156)

(369,962)

\$(1,405,231)

CHIKAMING TOWNSHIP  
GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES, CONCLUDED  
for the year ended March 31, 2008

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Changes in net assets:			
Net (expenses) revenues	<u>\$(1,035,269)</u>	<u>\$ (369,962)</u>	<u>\$(1,405,231)</u>
General revenues:			
Property taxes	771,304	-	771,304
State-shared revenues	256,614	-	256,614
Interest and rentals	61,147	132,869	194,016
Special items:			
Gain from Joint Venture	-	535,785	535,785
Loss on disposal of capital assets	<u>(39,157)</u>	<u>-</u>	<u>(39,157)</u>
Total general revenues and special items	<u>1,049,908</u>	<u>668,654</u>	<u>1,718,562</u>
Changes in net assets	14,639	298,692	313,331
Net assets, beginning of year	<u>5,486,207</u>	<u>10,057,584</u>	<u>15,543,791</u>
Net assets, end of year	<u><u>\$ 5,500,846</u></u>	<u><u>\$10,356,276</u></u>	<u><u>\$15,857,122</u></u>

The accompanying notes are an integral part of these financial statements.

## **FUND FINANCIAL STATEMENTS**

CHIKAMING TOWNSHIP

GOVERNMENTAL FUNDS  
BALANCE SHEET

as of March 31, 2008

	<u>General</u>	<u>Special Revenue (Building Inspection)</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$1,101,293	\$48,015	\$1,149,308
Restricted cash	6,272	-	6,272
Taxes receivable	44,773	-	44,773
Due from other funds	34,450	-	34,450
Due from other governments	1,234	-	1,234
Prepaid insurance	13,103	-	13,103
Total assets	<u>\$1,201,125</u>	<u>\$48,015</u>	<u>\$1,249,140</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	<u>\$ 9,245</u>	<u>\$ 7,151</u>	<u>\$ 16,396</u>
<b>Fund balances:</b>			
Reserved for capital expenditures	6,272	-	6,272
Reserved for prepaid items	13,103	-	13,103
Unreserved reported in:			
General Fund	1,172,505	-	1,172,505
Special Revenue Fund	<u>-</u>	<u>40,864</u>	<u>40,864</u>
Total fund balances	<u>1,191,880</u>	<u>40,864</u>	<u>1,232,744</u>
Total liabilities and fund balances	<u>\$1,201,125</u>	<u>\$48,015</u>	<u>\$1,249,140</u>

The accompanying notes are an integral part of these financial statements.

CHIKAMING TOWNSHIP  
RECONCILIATION OF THE BALANCE SHEET OF THE  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
as of March 31, 2008  
\_\_\_\_\_

Fund balances of Governmental Funds	\$1,232,744
Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Add, capital assets	5,299,252
Deduct, accumulated depreciation	(899,478)
Long-term notes payable are notes due and payable in the current period and, therefore, are not reported in the funds:	
Deduct, note payable	<u>(131,672)</u>
Net assets of governmental activities	<u><u>\$5,500,846</u></u>

The accompanying notes are an integral part of these financial statements.

CHIKAMING TOWNSHIP  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES

for the year ended March 31, 2008

	<u>General</u>	<u>Special Revenue (Building Inspection)</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 771,304	\$ -	\$ 771,304
Administrative fees	138,559	-	138,559
State-shared revenues	256,614	-	256,614
Licenses and permits	22,938	170,484	193,422
Federal grants	53,081	-	53,081
Charges for services	78,572	-	78,572
Interest income	50,047	-	50,047
Rentals	11,100	-	11,100
Donations	1,056	-	1,056
Miscellaneous	<u>38,827</u>	<u>-</u>	<u>38,827</u>
Total revenues	<u>1,422,098</u>	<u>170,484</u>	<u>1,592,582</u>
Expenditures:			
Legislative	8,605	-	8,605
General government	302,558	-	302,558
Public safety	751,647	194,209	945,856
Public works	60,107	-	60,107
Park Commission	38,274	-	38,274
Capital expenditures	124,345	-	124,345
Debt service:			
Principal	13,558	-	13,558
Interest	<u>6,030</u>	<u>-</u>	<u>6,030</u>
Total expenditures	<u>1,305,124</u>	<u>194,209</u>	<u>1,499,333</u>
Net changes in fund balances	116,974	(23,725)	93,249
Fund balances, beginning of year	<u>1,074,906</u>	<u>64,589</u>	<u>1,139,495</u>
Fund balances, end of year	<u>\$1,191,880</u>	<u>\$ 40,864</u>	<u>\$1,232,744</u>

The accompanying notes are an integral part of these financial statements.

CHIKAMING TOWNSHIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

for the year ended March 31, 2008

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Net changes in fund balances of total Governmental Funds \$ 93,249

Amounts reported for governmental activities in the statement of activities are different because Governmental Funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense:

Add, capital items purchased during year	124,925
Deduct:	
Depreciation expense	(177,936)
Loss on disposal of capital assets	(39,157)

Repayment of notes payable is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets:

Add, principal payments on long-term liabilities	<u>13,558</u>
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Changes in net assets of governmental activities	<u>\$ 14,639</u>
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The accompanying notes are an integral part of these financial statements.



CHIKAMING TOWNSHIP  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS

as of March 31, 2008

ASSETS	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Current assets:			
Cash and cash equivalents	\$ 204,062	\$1,492,164	\$ 1,696,226
Investment (certificate of deposit over 90 days)	-	107,336	107,336
Inventory, at cost	102,573	-	102,573
Accounts receivable	7,465	3,513	10,978
Assessments receivable, current portion	28,000	15,000	43,000
Due from other funds	-	159,877	159,877
Note receivable, General Fund, current portion	-	14,140	14,140
Prepaid rent	250	125	375
Prepaid insurance	5,058	-	5,058
Total current assets	<u>347,408</u>	<u>1,792,155</u>	<u>2,139,563</u>
Non-current assets:			
Restricted:			
Cash and cash equivalents	900,177	-	900,177
Investment (certificate of deposit over 90 days)	105,650	-	105,650
Capital assets, net	4,642,227	1,479,342	6,121,569
Assessments receivable, net of current portion	66,572	62,440	129,012
Note receivable, General Fund, net of current portion	-	117,532	117,532
Investment in Joint Venture	-	3,221,601	3,221,601
Bonded debt unamortized discount	8,956	-	8,956
Deferred debt service cost	18,813	-	18,813
Total non-current assets	<u>5,742,395</u>	<u>4,880,915</u>	<u>10,623,310</u>
Total assets	<u>\$6,089,803</u>	<u>\$6,673,070</u>	<u>\$12,762,873</u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Current liabilities:			
Accounts payable	\$ 32,070	\$ 45,205	\$ 77,275
Due to other funds	185,102	5,404	190,506
Accrued interest payable	16,199	-	16,199
Meter deposits due customers	145,263	-	145,263
Bonds payable, current portion	195,000	-	195,000
Total current liabilities	<u>573,634</u>	<u>50,609</u>	<u>624,243</u>
Non-current liabilities:			
Bonds payable, net of current portion	1,825,000	-	1,825,000
Deferred amount on refunding	(42,646)	-	(42,646)
Total non-current liabilities	<u>1,782,354</u>	<u>-</u>	<u>1,782,354</u>
Total liabilities	<u>2,355,988</u>	<u>50,609</u>	<u>2,406,597</u>
Net assets:			
Invested in capital assets, net of related debt	2,664,873	1,479,342	4,144,215
Restricted for debt service	1,005,827	-	1,005,827
Unrestricted	63,115	5,143,119	5,206,234
Total net assets	<u>3,733,815</u>	<u>6,622,461</u>	<u>10,356,276</u>
Total liabilities and net assets	<u>\$6,089,803</u>	<u>\$6,673,070</u>	<u>\$12,762,873</u>

CHIKAMING TOWNSHIP

PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS

for the year ended March 31, 2008

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 996,874	\$ 443,649	\$ 1,440,523
Service installation	114,050	-	114,050
Hydrant rentals	18,728	-	18,728
Miscellaneous	7,859	850	8,709
Total operating revenues	<u>1,137,511</u>	<u>444,499</u>	<u>1,582,010</u>
Operating expenses:			
Water purchases	398,752	-	398,752
Sewage treatment	-	533,398	533,398
Materials and supplies	65,452	-	65,452
Salaries and wages	170,740	47,626	218,366
Payroll taxes	12,673	2,725	15,398
Insurance and employee benefits	71,367	12,402	83,769
Office supplies and expense	683	3,732	4,415
Repairs and maintenance	60	74,299	74,359
Computer expense	1,250	-	1,250
Mileage and travel	12,848	-	12,848
Professional services	7,043	5,435	12,478
Booster station expense	41,422	-	41,422
Street light and lift station expense	-	10,881	10,881
Pumphouse operations	29,425	-	29,425
Rent	4,500	2,400	6,900
Utilities	3,212	2,553	5,765
Postage	4,350	3,226	7,576
Miss Dig	196	-	196
Engineering fees	17,074	12,169	29,243
Subcontractors	35,185	-	35,185
Debt service expense	1,385	-	1,385
Bond paying agent charges	1,025	-	1,025
Depreciation	132,520	138,857	271,377
Property insurance	18,611	-	18,611
Miscellaneous	25,160	2,665	27,825
Total operating expenses	<u>1,054,933</u>	<u>852,368</u>	<u>1,907,301</u>
Operating income (loss)	<u>82,578</u>	<u>(407,869)</u>	<u>(325,291)</u>

The accompanying notes are an integral part of these financial statements.

CHIKAMING TOWNSHIP  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN NET ASSETS, CONCLUDED  
 for the year ended March 31, 2008

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
Non-operating revenues (expenses):			
Interest and dividends from investments	\$ 57,395	\$ 58,096	\$ 115,491
Interest income from special assessments	6,914	4,434	11,348
Other interest income	-	6,030	6,030
Interest expense	(107,384)	-	(107,384)
Net gain from Joint Venture	-	535,785	535,785
Special assessments	-	62,713	62,713
Total non-operating revenues (expenses)	(43,075)	667,058	623,983
Changes in net assets	39,503	259,189	298,692
Net assets, beginning of year	3,694,312	6,363,272	10,057,584
Net assets, end of year	\$3,733,815	\$6,622,461	\$10,356,276

The accompanying notes are an integral part of these financial statements.

## CHIKAMING TOWNSHIP

 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS

for the year ended March 31, 2008

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Receipts from customers	\$1,141,767	\$ 449,672	\$1,591,439
Payments to suppliers	(860,969)	(650,906)	(1,511,875)
Payments to employees	(170,740)	(47,626)	(218,366)
Net cash provided by (used in) operating activities	<u>110,058</u>	<u>(248,860)</u>	<u>(138,802)</u>
Cash flows from investing activities:			
Investment income received	64,310	68,559	132,869
Special assessment income received	27,577	74,481	102,058
Increase in investments	(4,271)	(5,196)	(9,467)
Payments from GRSD Sewer Authority	-	26,850	26,850
Decrease in note receivable	<u>-</u>	<u>13,558</u>	<u>13,558</u>
Net cash provided by investing activities	<u>87,616</u>	<u>178,252</u>	<u>265,868</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(856,212)	(8,361)	(864,573)
Principal paid on capital debt	(180,000)	-	(180,000)
Bond interest payments	(107,981)	-	(107,981)
Debt discounts and deferred debt service costs	2,045	-	2,045
Inter-fund loans	<u>159,448</u>	<u>(160,265)</u>	<u>(817)</u>
Net cash used in capital and related financing activities	<u>(982,700)</u>	<u>(168,626)</u>	<u>(1,151,326)</u>
Net decrease in cash and cash equivalents	(785,026)	(239,234)	(1,024,260)
Cash and cash equivalents, beginning of year	<u>1,889,265</u>	<u>1,731,398</u>	<u>3,620,663</u>
Cash and cash equivalents, end of year	<u>\$1,104,239</u>	<u>\$1,492,164</u>	<u>\$2,596,403</u>

The accompanying notes are an integral part of these financial statements.

CHIKAMING TOWNSHIP  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS, CONCLUDED  
 for the year ended March 31, 2008

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	Business-Type Activities		
	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 82,578	\$ (407,869)	\$ (325,291)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	132,520	138,857	271,377
Changes in assets and liabilities:			
Decrease (increase) in:			
Inventory, at cost	(949)	-	(949)
Accounts receivable	(732)	5,173	4,441
Increase (decrease) in:			
Accounts payable	(108,345)	14,979	(93,366)
Meter deposits due customers	(2,622)	-	(2,622)
Deferred revenues	<u>7,608</u>	<u>-</u>	<u>7,608</u>
Net cash provided by (used in) operating activities	<u>\$ 110,058</u>	<u>\$ (248,860)</u>	<u>\$ (138,802)</u>

The accompanying notes are an integral part of these financial statements.

CHIKAMING TOWNSHIP  
FIDUCIARY FUND  
STATEMENT OF ASSETS AND LIABILITIES  
as of March 31, 2008  
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TRUST AND AGENCY FUND

Assets:

Cash and cash equivalents

\$3,578

Liabilities:

Due to General Fund

\$3,578

The accompanying notes are an integral part of these financial statements.

CHIKAMING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS

March 31, 2008

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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The accounting policies of Chikaming Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Chikaming Township.

A. REPORTING ENTITY.

Chikaming Township was established by the Board of Supervisors on March 4, 1856. The Township operates under an elected five member Board consisting of a supervisor, clerk, treasurer and two trustees and provides the following services: public safety (police and fire), ambulance, water, sewer, recreation, planning and zoning, and general administrative services.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS.

The Government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for Governmental Funds, Proprietary Funds and Fiduciary Funds, even though the latter are excluded from the Government-wide financial statements. Major individual Governmental Funds and major Enterprise Funds are reported as separate columns in the Fund financial statements.



CHIKAMING TOWNSHIP

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION.

The Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary Funds and Fiduciary Fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Property taxes are levied on December 31 and payable in two installments on February 14 and September 14. The Township bills and collects its own property taxes and also the taxes for the County, State of Michigan and two school districts. Collections of the taxes and remittance of them are accounted for in the Current Tax Collection Fund. Property tax revenues are recognized when levied to the extent that they result in current receivables.

CHIKAMING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008  
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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED.

Chikaming Township reports the following major Governmental Funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Building Inspection Fund (a Special Revenue Fund) accounts for the revenues and expenditures related to the activities of the Inspection Department.

Chikaming Township reports the following major Proprietary Funds:

The Water and Sewer Funds account for the activities of the water distribution system and sewage collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the Government-wide and Proprietary Fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to (to also) follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the Government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

CHIKAMING TOWNSHIP

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's principal ongoing operations. The principal operating revenues of the Proprietary Funds relate to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenues. The portion intended to recover the cost of the infrastructure is recognized as non-operating revenues. Operating expenses for Proprietary Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY.

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the Government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of Governmental Funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Government-wide and Fund financial statements.

CHIKAMING TOWNSHIP

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the County being held for the construction or debt service of the local unit of government's water and sewer lines.

Capital Assets - Capital assets, which include property, plant and equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items constructed or acquired after 1980) are reported in the applicable governmental or business-type activities column in the Government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there were assets under construction which were financed with internal funds.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	30 to 50 years
Building improvements	15 to 30 years
Land improvements	10 to 20 years
Water and sewer lines	25 to 40 years
Vehicles	3 to 5 years
Office equipment	5 to 7 years
Computer equipment	3 to 7 years
Other equipment	5 to 12 years

CHIKAMING TOWNSHIP

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED.

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but not unused sick and vacation pay benefits. There is no liability for unpaid accumulated vacation and sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government.

Long-Term Obligations - In the Government-wide financial statements and the Proprietary Fund types in the Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the Fund financial statements, Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the Fund financial statements, Governmental Funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designations of fund balances represent tentative management plans that are subject to change.

Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures.

CHIKAMING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

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Note 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY.

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all Governmental Funds. All appropriations lapse at fiscal year end. The Township performs the following procedures in establishing the budgetary data reflected in the Fund financial statements:

1. The Township Board prepares a proposed operating budget for the fiscal year commencing April 1. The operating budget for the Enterprise Funds is also prepared by the Township Board. These operating budgets include proposed expenditures and the means of financing them.
2. A public hearing is conducted at the Township Hall to obtain taxpayer comments.
3. The budget is formally adopted at a duly posted special meeting following the public budget hearing.
4. Transfers or amendments to the budget may only be approved by the Township Board.
5. Formal budgetary integration is employed as a management control device during the year for all funds.

Excess of Expenditures over Appropriations in Major Budgeted Funds

General Fund and Building Inspection (Special Revenue) Funds:

There were no major budgeted funds that had expenditures exceeding appropriations.

CHIKAMING TOWNSHIP

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

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Note 3. DEPOSITS AND INVESTMENTS.

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated six (6) banks for the deposit of Township funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

The Township's deposits and investment policy are in accordance with statutory authority.

CHIKAMING TOWNSHIP

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

Note 3. DEPOSITS AND INVESTMENTS, CONCLUDED.

At March 31, 2008, the Township's deposits and investments were reported in the basic financial statements by the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Restricted:				
Cash and cash equivalents	\$ 6,272	\$ 900,177	\$ -	\$ 906,449
Investments	-	105,650	-	105,650
Unrestricted:				
Cash and cash equivalents	1,149,308	1,696,227	6,309	2,851,844
Investments	-	107,336	-	107,336
	<u>\$1,155,580</u>	<u>\$2,809,390</u>	<u>\$6,309</u>	<u>\$3,971,279</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking, savings, money market accounts, certificates of deposit)	\$3,419,199
Investment (certificate of deposit over 90 days)	212,986
Money market funds (U.S. Treasury insured)	<u>339,094</u>
	<u>\$3,971,279</u>

The following is a schedule of insured and uninsured Bank deposits of the Township as of March 31, 2008:

	<u>Insured</u>	<u>Uninsured</u>	<u>Total</u>
Bank of New York	\$ 339,094	\$ -	\$ 339,094
Berrien Teachers Credit Union	100,000	7,336	107,336
Edgewater Bank	100,000	5,650	105,650
Fifth Third Bank	193,697	283,436	477,133
Horizon Bank	200,000	1,447,655	1,647,655
New Buffalo Savings Bank	<u>200,000</u>	<u>1,094,411</u>	<u>1,294,411</u>
	<u>\$1,132,791</u>	<u>\$2,838,488</u>	<u>\$3,971,279</u>



CHIKAMING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008  
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Note 4. RECEIVABLES.

Receivables as of March 31, 2008 for the Township's individual major and non-major funds, and Fiduciary Fund in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Water and Sewer Funds</u>	<u>Total</u>
Taxes receivable	\$44,773	\$ -	\$ 44,773
Accounts receivable	-	10,978	10,978
Special assessments	-	172,012	172,012
Intergovernmental	<u>1,234</u>	<u>-</u>	<u>1,234</u>
Gross receivables	46,007	182,990	228,997
Less, allowance for uncollectible accounts	<u>-</u>	<u>-</u>	<u>-</u>
Net receivables	<u>\$46,007</u>	<u>\$182,990</u>	<u>\$228,997</u>

Note 5. INTERFUND RECEIVABLES AND PAYABLES.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General	\$ 34,450	Trust and Agency	\$ 3,578
Sewer	159,877	Water	185,345
	<u>-----</u>	Sewer	<u>5,404</u>
	<u>\$194,327</u>		<u>\$194,327</u>

CHIKAMING TOWNSHIP

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

Note 6. CAPITAL ASSETS.

Capital asset activity of the Township for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated:				
Land	\$1,882,301	\$ -	\$ 9,250	\$1,873,051
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>1,882,301</u>	<u>-</u>	<u>9,250</u>	<u>1,873,051</u>
Capital assets being depreciated:				
Buildings	1,798,023	-	2,000	1,796,023
Improvements other than buildings	352,347	30,637	12,504	370,480
Machinery and equipment	<u>1,271,581</u>	<u>94,288</u>	<u>106,171</u>	<u>1,259,698</u>
Subtotal	<u>3,421,951</u>	<u>124,925</u>	<u>120,675</u>	<u>3,426,201</u>
Less, accumulated depreciation for:				
Buildings	140,207	45,539	773	184,973
Improvements other than buildings	62,485	20,727	11,074	72,138
Machinery and equipment	<u>609,618</u>	<u>111,670</u>	<u>78,921</u>	<u>642,367</u>
Subtotal	<u>812,310</u>	<u>177,936</u>	<u>90,768</u>	<u>899,478</u>
Net capital assets being depreciated	<u>2,609,641</u>	<u>(53,011)</u>	<u>29,907</u>	<u>2,526,723</u>
Governmental activities capital assets, net of depreciation	<u>\$4,491,942</u>	<u>\$(53,011)</u>	<u>\$ 39,157</u>	<u>\$4,399,774</u>

## CHIKAMING TOWNSHIP

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

Note 6. CAPITAL ASSETS, CONCLUDED.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 287,225	\$ 8,361	\$ -	\$ 295,586
Construction in progress	<u>207,556</u>	<u>-</u>	<u>207,556</u>	<u>-</u>
Subtotal	<u>494,781</u>	<u>8,361</u>	<u>207,556</u>	<u>295,586</u>
Capital assets being depreciated:				
Infrastructure	9,085,033	1,063,768	-	10,148,801
Machinery and equipment	<u>260,106</u>	<u>-</u>	<u>-</u>	<u>260,106</u>
Subtotal	<u>9,345,139</u>	<u>1,063,768</u>	<u>-</u>	<u>10,408,907</u>
Less, accumulated depreciation for:				
Infrastructure	4,068,552	263,738	-	4,332,290
Machinery and equipment	<u>242,995</u>	<u>7,638</u>	<u>-</u>	<u>250,633</u>
Subtotal	<u>4,311,547</u>	<u>271,376</u>	<u>-</u>	<u>4,582,923</u>
Net capital assets being depreciated	<u>5,033,592</u>	<u>792,392</u>	<u>-</u>	<u>5,825,984</u>
Business-type activities capital assets, net of depreciation	<u>\$5,528,373</u>	<u>\$ 800,753</u>	<u>\$207,556</u>	<u>\$ 6,121,570</u>

Depreciation expense was charged to programs of the Township as follows:

Governmental Activities:	
General government	\$ 62,013
Public safety	86,208
Park Commission	25,430
Building Inspection	<u>4,285</u>
Total Governmental Activities	<u>\$177,936</u>
Business-Type Activities:	
Water	\$123,958
Sewer	<u>147,419</u>
Total Business-Type Activities	<u>\$271,377</u>

Construction Commitments - The Township had no material water or sewer extension projects in progress at March 31, 2008.

CHIKAMING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008  
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Note 7. GENERAL FUND RESTRICTED ASSETS.

The restricted assets of the General Fund represent cash and certificates of deposit to be used for the purchase of capital improvements as follows:

Park Board	<u>\$6,272</u>
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Note 8. JOINT VENTURE - PROPRIETARY FUND.

Chikaming Township participates in a Joint Venture with New Buffalo Township, Lake Charter Township and the cities of Bridgman and New Buffalo. The purpose of the Venture, called the GRSD Sewer Authority (the "Authority"), is to provide sanitary sewage treatment and collection facilities for the residences of those communities.

The Authority is governed by a joint board of six members consisting of one member from each of the participating municipalities appointed by their respective governing bodies, and a sixth-at-large member appointed by the other five members.

Upon dissolution of the Authority, net assets will be shared on a pro-rata basis as follows:

Chikaming Township	28.6%
City of Bridgman	16.6%
City of New Buffalo	21.6%
Lake Charter Township	16.6%
New Buffalo Township	16.6%

CHIKAMING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008  
          

Note 8. JOINT VENTURE - PROPRIETARY FUND, CONCLUDED.

Chikaming Township is accounting for its investment in the Authority as a Joint Venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the Authority for the year ended December 31, 2007, audited by other independent accountants, whose report dated May 23, 2008, expressed an unqualified opinion on those statements.

Total assets	\$17,462,791
Total liabilities	<u>251,719</u>
Net assets	<u>\$17,211,072</u>
Operating revenues	\$ 1,912,578
Operating expenses	<u>1,825,383</u>
Operating income	87,195
Non-operating income	<u>1,786,181</u>
Change in net assets	1,873,376
Net assets, beginning of year	<u>15,337,696</u>
Net assets, end of year	<u>\$17,211,072</u>

Complete financial statements for the GRSD Sewer Authority may be obtained at the Authority's administrative office:

GRSD Sewer Authority  
10831 Kruger Road  
New Buffalo, Michigan 49117

The Township's net investment and its share of the operating results of the Authority are reported in the Township's Sewer Fund. The Township's equity interest was \$3,221,601 as of December 31, 2007.

CHIKAMING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
March 31, 2008  


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Note 9. NOTE PAYABLE - SEWER FUND.

On April 14, 2006, the General Fund received a loan from the Sewer Fund in the amount of \$159,000 for the purchase of Fire Department equipment. This loan is payable with interest at 4.25% over ten years with semi-annual payments of principal and interest of \$9,793.92.

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
Total year-end balance	\$131,672	\$145,230
Less, current portion	<u>14,140</u>	<u>13,558</u>
Long-term debt	<u>\$117,532</u>	<u>\$131,672</u>

The future maturities of long-term debt are as follows:

Year one	\$ 14,140
Year two	14,749
Year three	15,381
Year four	16,042
Later years	<u>71,360</u>
Total	<u>\$131,672</u>

CHIKAMING TOWNSHIP

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

Note 10. LONG-TERM DEBT.

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>
BUSINESS-TYPE ACTIVITIES			
Water System Supply Revenue Refunding Bonds, Series 1994 (non-refundable bonds)	5.9%-6.5%	5/1/2014	\$ 115,000
Water System Supply Revenue Refunding Bonds, Series 2001 (refunds callable, Series 1994)	4.45%-5.5%	5/1/2014	1,090,000
General Obligation Limited Tax Bonds, Series 2006	3.7%-4.2%	11/1/2021	<u>995,000</u>
			<u>\$2,200,000</u>

<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$(10,000)	\$ 105,000	\$ 10,000
(125,000)	965,000	135,000
<u>(45,000)</u>	<u>950,000</u>	<u>50,000</u>
<u>\$180,000</u>	<u>\$2,020,000</u>	<u>\$195,000</u>



CHIKAMING TOWNSHIP

NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

Note 10. LONG-TERM DEBT, CONCLUDED.

WATER SUPPLY SYSTEM REVENUE REFUNDING BONDS

On October 1, 2001, the Chikaming Township Water Department issued \$1,485,000 Water Supply System Revenue Refunding Bonds, Series 2001. The purpose of the bonds is to finance an advance refunding of a portion of the outstanding Water Supply System Revenue and Revenue Refunding Bonds, Series 1994, and to pay the cost of issuing the bonds.

Interest is payable semi-annually on May 1 and November 1 of each year commencing May 1, 2002. Interest rates range from 4.35% to 5.50%. The bonds are fully matured in 2014.

A deferred loss of \$95,000 was recognized as a result of this refunding, amortized over the 13 year life of the new debt. Annual amortization of \$7,308 is recorded as an addition to interest expense.

GENERAL OBLIGATION LIMITED TAX BONDS, SERIES 2006

On November 9, 2006, the Chikaming Township Water Department issued \$995,000 General Obligation Limited Tax Bonds, Series 2006. The purpose of the bonds is to pay for the cost of certain capital improvements for the Township.

The bonds bear interest from their date payable on May 1, 2007, and semi-annually thereafter, at rates ranging from 3.7% to 4.2%.

Bonds of this issue maturing in the years 2007 to 2014, inclusive, are not subject to redemption prior to maturity. Bonds or portions of bonds of this issue in multiples of \$5,000 maturing in the year 2015 and thereafter shall be subject to redemption prior to maturity, at the option of the Township.

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending March 31,	Water Fund		
	Principal	Interest	Total
2009	\$ 195,000	\$ 90,508	\$ 285,508
2010	200,000	80,604	280,604
2011	215,000	70,414	285,414
2012	220,000	59,496	279,496
Later years	<u>1,190,000</u>	<u>209,749</u>	<u>1,399,749</u>
	<u>\$2,020,000</u>	<u>\$510,771</u>	<u>\$2,530,771</u>

CHIKAMING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

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Note 11. RETIREMENT PLANS.

The Township has two retirement plans covering substantially all of its full time employees.

Defined Contribution Pension Plan

In 1971, the Township established the Chikaming Township Pension Plan, a defined contribution money purchase pension plan under Section 457 of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The following is information of the Plan:

- |                             |   |
|-----------------------------|---|
| . Eligibility requirements: | All full time employees and elected officials age 18 with zero years of service                     |
| . Normal retirement age:    | Age 65  |
| . Early retirement age:     | Age 55  |
| . Vesting:                  | 100% at time of contribution  |
| . Contribution limits:      | Employer - 9% of compensation with \$225 minimum<br>Employee - 1% of compensation with \$75 minimum |
| . Benefit determination:    | Accumulated amount in Plan at termination date  |
| . Latest revision date:     | April 1, 1997   |

All funds are invested in John Hancock Life Insurance Company guaranteed accounts. Current year contributions are \$11,421 and \$2,589 for the employer and employee, respectively.

CHIKAMING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS, CONTINUED

March 31, 2008

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Note 11. RETIREMENT PLANS, CONTINUED.

Defined Benefit Pension Plan

Plan Description - Effective January 1, 2006, the Township began participation in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible employees of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to:

MERS  
1134 Municipal Way  
Lansing, Michigan 48917

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by a Township Board resolution and requires the employees to contribute 3% of their gross pay to the Plan. The participants of the Defined Contribution Pension Plan could voluntarily transfer their individual plan balance to this new plan, or remain with the Defined Benefit Pension Plan. New employees are required to join the Defined Benefit Pension Plan.

Annual Pension Cost - For the year ended March 31, 2008, the Township's pension cost of \$42,829 was contributed for this Plan. Additionally, employees contributed \$23,112 to the Plan.

The formula for determination of the annual pension cost upon normal retirement is as follows:

Selected Multiplier (2.0%) times years of Credited Service  
times Final Average Compensation (effective November 1,  
2007).

CHIKAMING TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS, CONCLUDED

March 31, 2008  
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Note 11. RETIREMENT PLANS, CONCLUDED.

There are two types of plans within the Defined Benefit Pension Plan, called the "In-Office" Plan and "Out-of-Office" Plan. Details are as follows:

	<u>In-Office Plan</u>	<u>Out-of-Office Plan</u>
. Multiplier percent of final average compensation:		
Average over 3 years	2.0%	
Average over 5 years		2.0%
. Vesting period	6 years	10 years
. Normal retirement age	Age 60	Age 60
. Early retirement age with 25 years service	N/A	Age 55
. Disability benefit	No	Yes

These two plans require an employer contribution based on actuarial valuations, which would be paid on the gross (base plus overtime) salary of the participant. The employee in each plan contributes 6.75% (In-Office) and 6.48% (Out-of-Office) of their gross salary.

Note 12. RISK MANAGEMENT.

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

## **SUPPLEMENTARY INFORMATION**

CHIKAMING TOWNSHIP  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
for the year ended March 31, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 738,200	\$ 738,200	\$ 771,304	\$ 33,104
Administrative fees	115,000	115,000	138,559	23,559
State-shared revenues	249,000	249,000	256,614	7,614
Licenses and permits	8,010	8,010	22,938	14,928
Federal grants	-	-	53,081	53,081
Charges for services	75,800	75,800	78,572	2,772
Interest income	25,000	25,000	50,047	25,047
Rentals	11,100	11,100	11,100	-
Donations	-	-	1,056	1,056
Micellaneous	31,000	31,000	38,827	7,827
Total revenues	<u>1,253,110</u>	<u>1,253,110</u>	<u>1,422,098</u>	<u>168,988</u>
Expenditures:				
Legislative	9,750	9,750	8,605	(1,145)
General government:				
Supervisor	110,716	110,716	109,239	(1,477)
Elections	4,200	4,200	636	(3,564)
Clerk	31,390	31,390	24,094	(7,296)
Treasurer	41,255	43,255	42,990	(265)
Board of Review	4,100	4,100	2,497	(1,603)
Cemetery	48,649	48,649	44,723	(3,926)
Other general government	77,742	77,742	78,379	637
Public safety:				
Police and liquor law enforcement	476,200	476,200	451,380	(24,820)
Fire protection	140,300	140,300	161,141	20,841
Planning and zoning	31,200	31,200	20,169	(11,031)
First responder service	148,100	148,100	118,957	(29,143)

CHIKAMING TOWNSHIP  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE, CONCLUDED  
for the year ended March 31, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures, Concluded:				
Public works:				
Highway lighting	\$ 23,500	\$ 24,000	\$ 23,873	\$ (127)
Road maintenance	24,000	32,200	32,197	(3)
County drain-at-large	4,000	4,100	4,037	(63)
Park Commission	60,000	60,000	38,274	(21,726)
Capital expenditures	92,500	81,700	124,345	42,645
Debt service:				
Principal	13,558	13,558	13,558	-
Interest	<u>6,042</u>	<u>6,042</u>	<u>6,030</u>	<u>(12)</u>
Total expenditures	<u>1,347,202</u>	<u>1,347,202</u>	<u>1,305,124</u>	<u>(42,078)</u>
Revenues over (under) expenditures	(94,092)	(94,092)	116,974	211,066
Other financing sources:				
Transfers-in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(94,092)	(94,092)	116,974	211,066
Fund balance, beginning of year	<u>1,074,906</u>	<u>1,074,906</u>	<u>1,074,906</u>	<u>-</u>
Fund balance, end of year	<u>\$ 980,814</u>	<u>\$ 980,814</u>	<u>\$1,191,880</u>	<u>\$211,066</u>

CHIKAMING TOWNSHIP  
BUILDING INSPECTION FUND  
BUDGETARY COMPARISON SCHEDULE  
for the year ended March 31, 2008

	<u>Budgeted</u> <u>Original</u>	<u>Amounts</u> <u>Final</u>	<u>Actual</u> <u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Actual</u> <u>Over (Under)</u> <u>Final Budget</u>
Revenues:				
Licenses and permits	\$173,200	\$173,200	\$170,484	\$(2,716)
Expenditures:				
Public safety	<u>200,000</u>	<u>200,000</u>	<u>194,209</u>	<u>(5,791)</u>
Revenues over (under) expenditures	(26,800)	(26,800)	(23,725)	3,075
Other financing uses:				
Transfers-out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(26,800)	(26,800)	(23,725)	3,075
Fund balance, beginning of year	<u>64,589</u>	<u>64,589</u>	<u>64,589</u>	<u>-</u>
Fund balance, end of year	<u>\$ 37,789</u>	<u>\$ 37,789</u>	<u>\$ 40,864</u>	<u>\$ 3,075</u>



# HUTTER & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

330 COMMERCE SQUARE

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July 21, 2008

To the Township Board  
Chikaming Township  
Berrien County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Chikaming Township (Township) as of March 31, 2008, and for the year then ended, and have issued our report thereon dated July 9, 2008. Professional standards require that we provide you with the following information related to our audit.

## **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated February 13, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

## **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2008. We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Audit Adjustments (Corrected and Uncorrected Misstatements)**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated July 21, 2008.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Communication of Significant Deficiencies and Material Weaknesses*

In planning and performing our audit of the financial statements, as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The AICPA Auditing Standards Board issued Statements on Audit Standards (SAS) 112 that establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting and is effective for periods beginning after December 15, 2006. According to SAS 112, it is considered to be a control deficiency if a client we are auditing has ineffective controls over the preparation of their financial statements such that client controls are absent or controls are not effective in preventing or detecting material misstatements in the preparation of the financial statements, including the related footnotes.

We considered the following deficiencies to be significant deficiencies in internal control:

**Preparation of Financial Statements** – Management prepares internal financial information to assess operations and the financial position of the Township on an ongoing basis. Although the internal financial information is sufficient to operate the Township, it is not presented in accordance with generally accepted accounting principles. The Township contracts with us, the auditors, to draft the financial statements, including all necessary notes, in accordance with generally accepted accounting principles, since it does not retain staffing that currently have the expertise. We believe this meets the definition of a material weakness under *Statement on Auditing Standards 112*.

**Accrual Adjustments** – During the audit, we generally provide significant assistance in identifying and posting accrual adjustments to the accounting records. Accruals represent any adjustments other than cash that impact the accounting records. We bring this to your attention since it meets the above definition on a matter to be communicated.

**Segregation of Duties** – The relative size of the Township limits the extent to which the officials can segregate duties and responsibilities which impairs the basic premise that no one individual should have access to both the physical assets and the related accounting records (or all recording tasks of a transaction from inception to completion).

The Township has implemented mitigating controls to strengthen internal controls and the segregation of duties; however, it must be recognized that the risk of intentional or unintentional errors could be made and not detected in a timely manner.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We thank the Township staff for providing us with all the information and assistance necessary to complete this year's audit.

This report is intended solely for the information and use of the Township Board and management of Chikaming Township. If we can be of any assistance in implementing these suggestions or if you have any questions regarding these or any other matters, please feel free to contact us.

Very truly yours,

A handwritten signature in cursive script that reads "Hutter & Associates, P.C.".

Hutter & Associates, P.C.  
Certified Public Accountants